

# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.06)

Unit Name* Village of Alanson	County* EMMET	Type* VILLAGE	MuniCode* 24-3-010
Opinion Date-Use Calendar* Aug 28, 2008	Audit Submitted-Use Calendar* Sep 2, 2008	Fiscal Year End Month* 02	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts Issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies?
<input checked="" type="checkbox"/> ?	19. If so, was it attached to the audit report?

General Fund Revenue:	? \$ 247,396.00
General Fund Expenditure:	? \$ 244,776.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	? \$ 135,786.00
Governmental Activities Long-Term Debt (see instructions):	?

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* Laurie	Last Name* Bamberg	Ten Digit License Number* 1101024450		
CPA Street Address* 923 Spring Street	City* Petoskey	State* MI	Zip Code* 49770	Telephone* +1 (231) 347-4136
CPA Firm Name* Hill, Schroderus & Co., LLP	Unit's Street Address* 7631 Burr Avenue	Unit's City* Alanson	Unit's Zip* 49706	

**FINANCIAL REPORT  
VILLAGE OF ALANSON  
February 29, 2008**

**VILLAGE OF ALANSON  
FINANCIAL REPORT  
February 29, 2008**

Table of Contents

	<u>Page</u>
<b>Independent Auditors' Report</b>	1-2
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures, and Changes in Fund Balances	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Proprietary Fund:	
Statement of Net Assets	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	12-22
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedules:	
General Fund	23
Major Street Fund	24
Local Street Fund	25
<b>Internal Control, Compliance and Other Matters</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27



August 28, 2008

Independent Auditors' Report

Village President and Council  
Village of Alanson, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of the Village of Alanson, Michigan, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of the Village of Alanson, as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2008, on our consideration of the Village of Alanson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The budgetary comparison information, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village of Alanson has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined to supplement, although not required to be part of the basic financial statements.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

**VILLAGE OF ALANSON**  
**Statement of Net Assets**  
**February 29, 2008**

	Primary Government			Nonmajor Component Unit
	Governmental Activities	Business-Type Activity	Total	
<b><u>Assets</u></b>				
<b>Current Assets</b>				
Cash	\$ 85,064	\$ 14,981	\$ 100,045	\$ 2,647
Investments	65,299	72,966	138,265	-
Internal balances	(4,074)	4,074	-	-
Due from other governmental units	55,500	-	55,500	-
Receivables, net	-	51,261	51,261	-
Total current assets	201,789	143,282	345,071	2,647
<b>Noncurrent Assets</b>				
Land	11,874	-	11,874	-
Depreciable assets	1,569,340	-	1,569,340	-
Less: accumulated depreciation	(726,907)	-	(726,907)	-
Total noncurrent assets	854,307	-	854,307	-
Total assets	\$ 1,056,096	\$ 143,282	\$ 1,199,378	\$ 2,647
<b><u>Liabilities and Net Assets</u></b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 13,092	\$ -	\$ 13,092	\$ -
Due to other governmental units	-	9,339	9,339	-
Accrued expenditures	661	-	661	-
Total current liabilities	13,753	9,339	23,092	-
<b>Net Assets</b>				
Invested in capital assets, net of related debt	854,307	-	854,307	-
Restricted	-	133,943	133,943	-
Unrestricted	188,036	-	188,036	2,647
Total net assets	1,042,343	133,943	1,176,286	2,647
Total liabilities and net assets	\$ 1,056,096	\$ 143,282	\$ 1,199,378	\$ 2,647

**VILLAGE OF ALANSON**  
**Statement of Activities**  
**For the Year Ended February 29, 2008**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Nonmajor Component Unit
Primary Government:	Expenses				Total	
Governmental activities:						
General government	\$ 101,337	\$ 1,202	\$ -	\$ (100,135)	\$ (100,135)	\$ -
Public safety	2,849	-	-	(2,849)	(2,849)	-
Public works	120,033	60,769	580,463	521,199	521,199	-
Recreation and cultural	2,013	-	-	(2,013)	(2,013)	-
Unallocated depreciation	46,696	-	-	(46,696)	(46,696)	-
Total governmental activities	272,928	60,769	580,463	369,506	369,506	-
Business-type activities:						
Sewer	178,794	149,741	-	-	(29,053)	-
Total primary government	\$ 451,722	\$ 150,943	\$ 580,463	\$ 369,506	\$ (29,053)	\$ -
Component Unit:						
Downtown Development Authority	\$ 25,011	\$ 12,707	\$ -	-	-	(1,529)
General revenues:						
Property taxes				146,719	-	4,169
State-shared revenues				71,288	-	-
Interest and rentals				24,764	3,278	7
Miscellaneous				7,012	-	-
Total general revenues and transfers				249,783	3,278	4,176
Change in net assets				619,289	(25,775)	2,647
Net assets - beginning of year				423,054	159,718	-
Net assets - end of year				\$ 1,042,343	\$ 133,943	\$ 2,647

**VILLAGE OF ALANSON**  
**Balance Sheet**  
**Governmental Funds**  
**February 29, 2008**

	General	Major Street	Local Street	Total Governmental Funds
<b><u>Assets</u></b>				
Cash	\$ 73,363	\$ 1,009	\$ 10,692	\$ 85,064
Investments	65,299	-	-	65,299
Due from other governmental units	11,987	8,020	3,648	23,655
Total assets	<u>\$ 150,649</u>	<u>\$ 9,029</u>	<u>\$ 14,340</u>	<u>\$ 174,018</u>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 10,128	\$ -	\$ 2,964	\$ 13,092
Accrued expenditures	661	-	-	661
Due to sewer fund	4,074	-	-	4,074
Total liabilities	<u>14,863</u>	<u>-</u>	<u>2,964</u>	<u>17,827</u>
<b>Fund balances</b>				
Unreserved	<u>135,786</u>	<u>9,029</u>	<u>11,376</u>	<u>156,191</u>
Total fund balances	<u>135,786</u>	<u>9,029</u>	<u>11,376</u>	<u>156,191</u>
Total liabilities and fund balances	<u>\$ 150,649</u>	<u>\$ 9,029</u>	<u>\$ 14,340</u>	<u>\$ 174,018</u>



**VILLAGE OF ALANSON**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**February 29, 2008**

<b>Total Fund Balance - Governmental Funds</b>	\$ 156,191
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Amounts reported for governmental activities in the statement of net assets are different because:

Revenue is recorded in the governmental funds when it is measurable and available. In governmental activities, revenue and an account receivable are recorded when revenue is earned.	31,845
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Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives.

Governmental capital assets	1,581,214
Accumulated depreciation	<u>(726,907)</u>

<b>Net Assets of Governmental Activities</b>	<b><u>\$ 1,042,343</u></b>
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**VILLAGE OF ALANSON**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended February 29, 2008**

	General	Major Street	Local Street	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 144,741	\$ -	\$ -	\$ 144,741
Federal revenues	-	488,811	-	488,811
State revenues	71,288	132,113	20,308	223,709
Charges for services	1,202	-	-	1,202
Interest and rentals	24,678	53	33	24,764
Other	5,487	1,525	-	7,012
Total revenues	<u>247,396</u>	<u>622,502</u>	<u>20,341</u>	<u>890,239</u>
<b>Expenditures</b>				
Current:				
General government	101,337	-	-	101,337
Public safety	2,849	-	-	2,849
Public works	138,577	620,872	23,997	783,446
Recreation and cultural	2,013	-	-	2,013
Total expenditures	<u>244,776</u>	<u>620,872</u>	<u>23,997</u>	<u>889,645</u>
<b>Net change in fund balances</b>	2,620	1,630	(3,656)	594
<b>Fund balances - beginning of year</b>	<u>133,166</u>	<u>7,399</u>	<u>15,032</u>	<u>155,597</u>
<b>Fund balances - end of year</b>	<u>\$ 135,786</u>	<u>\$ 9,029</u>	<u>\$ 11,376</u>	<u>\$ 156,191</u>

**VILLAGE OF ALANSON**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended February 29, 2008**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 594</b>
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Amounts reported for governmental activities in the statement of activities  
are different because:

Revenue is recorded in the governmental funds when it is measurable and available. In governmental activities, revenue and an account receivable are recorded when revenue is earned.	1,978
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.

Capital outlay	663,413
Current year depreciation	(46,696)
	616,717

<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 619,289</b>
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**VILLAGE OF ALANSON**  
**Statement of Net Assets**  
**Proprietary Fund**  
**February 29, 2008**

	Business-Type Activity Enterprise Fund Sewer System
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash	\$ 14,981
Investments	72,966
Receivables, net	51,261
Due from general fund	4,074
	<hr/>
Total current assets	\$ 143,282
	<hr/>
<b><u>Liabilities and Net Assets</u></b>	
<b>Current Liabilities</b>	
Due to other governmental units	\$ 9,339
	<hr/>
<b>Net Assets</b>	
Restricted	133,943
	<hr/>
Total liabilities and net assets	\$ 143,282
	<hr/>

**VILLAGE OF ALANSON**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Year Ended February 29, 2008**

	Business-Type Activity Enterprise Fund <u>Sewer System</u>
<b>Operating revenues</b>	
Charges for services	\$ 149,741
<b>Operating expenses</b>	
Personal services	5,333
Contractual services	172,107
Other supplies and expenses	<u>1,354</u>
Total operating expenses	<u>178,794</u>
Operating income (loss)	(29,053)
<b>Nonoperating revenues</b>	
Interest	<u>3,278</u>
Change in net assets	(25,775)
Total net assets - beginning	<u>159,718</u>
Total net assets - ending	<u><u>\$ 133,943</u></u>

**VILLAGE OF ALANSON**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended February 29, 2008**

	Business-Type Activity Enterprise Fund Sewer System
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 137,894
Payments to suppliers	(172,770)
Cash payments to employees for services	(5,332)
	<u>(40,208)</u>
Net cash provided (used) by operating activities	<u>(40,208)</u>
<b>Cash flows from investing activities</b>	
Proceeds from investments (CDs)	50,194
Interest received	3,278
	<u>53,472</u>
Net cash provided (used) by investing activities	<u>53,472</u>
Net increase (decrease) in cash	13,264
<b>Cash, beginning</b>	<u>1,717</u>
<b>Cash, ending</b>	<u><u>\$ 14,981</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (29,053)
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	(11,847)
Increase (decrease) in accounts payable	692
	<u>(11,155)</u>
Net cash provided (used) by operating activities	<u><u>\$ (40,208)</u></u>

**VILLAGE OF ALANSON**  
**NOTES TO FINANCIAL STATEMENTS**  
**February 29, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village operates under a Council-President form of government and provides the following services as authorized by its charter: public safety (fire), highways and streets, sanitation, public improvements, planning and zoning, culture – recreation, and general administrative services.

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Village of Alanson.

**REPORTING ENTITY**

The accompanying financial statements have been prepared in accordance with criteria established by GASB No. 14, and amended by GASBS No. 39. GASBS 14 states that the primary basis for determining whether outside agencies and organizations should be considered component units of the Village and included in the Village's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Village has one component unit.

**DISCRETELY PRESENTED COMPONENT UNIT**

**Downtown Development Authority (DDA)** – The Downtown Development Authority was established on August 31, 2004 pursuant to the provisions of Public Act 197 of 1975. The DDA was created to analyze the impact of economic changes and growth in the downtown district. The DDA's governing body consists of 8-12 individuals, appointed by the president of the Village and subject to approval by the Village Council. The DDA's budget is also subject to approval by the Village Council. Upon dissolution of the DDA, its assets revert to the village.

**BASIC FINANCIAL STATEMENTS – OVERVIEW**

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

## **NOTES TO FINANCIAL STATEMENTS – CONTINUED**

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

#### **BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the Village as an entity and the change in the Village's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activity are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Village's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

#### **BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS**

The financial transactions of the Village are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business-type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.



## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

##### Governmental Funds

The following is a description of the major governmental funds of the Village:

**General Fund** – The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

**Major and Local Street Funds** – The Street Funds account for the operation of the street departments. Primary financing is provided by the Village's share of state gasoline taxes. State law requires these gasoline taxes to be used to maintain streets.

##### Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary fund of the Village:

**Sewer Fund** – The Sewer Fund is an Enterprise Fund. This fund is financed and operated in a manner similar to private enterprise. The intent is that costs (expenses) of providing sewer service to the general public are recovered through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Village's proprietary fund are charges to customers for sales and services. Operating expenses for this fund include the cost of sales and services, and also administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

## **NOTES TO FINANCIAL STATEMENTS – CONTINUED**

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

#### **BASIS OF ACCOUNTING – CONTINUED**

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures are recorded only when payment is due.

#### **ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

##### **Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand and demand deposits.

##### **Interfund Receivables/Payables**

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

##### Capital Assets

Capital assets, which include property, buildings, leasehold improvements, infrastructure assets (e.g., roads, bridges and similar items) and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Village when they have an estimated useful life in excess of 2 years, and individual costs are equal to or greater than:

Land	\$ 1
Buildings	25,000
Infrastructure	50,000
All other asset types	3,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Streets, Curbs and Gutters	10 to 30 years
Equipment	3 to 7 years
Office Equipment	5 to 7 years

##### Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

##### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

##### **COMPARATIVE DATA**

Comparative data for the prior year is not included in the Village's financial statements.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all Governmental funds of the Village. Budgetary control is legally maintained at the fund level.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 1, the President submits to the Village Council a proposed operating budget for the fiscal year commencing March 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at Village Hall to obtain taxpayer comments.
3. Prior to March 1, the fund budgets are legally enacted through passage of an appropriation act.
4. The budget is adopted at the fund level consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Village Council during the year, and lapse at year-end.

### NOTE 3: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Village is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. During the year ended February 29, 2008, the Village incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Amended Budget</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
Major Street	\$ 40,409	\$ 620,872	\$ (580,463)

The Village's excess expenditures were related to a critical bridge repair project which was funded through a combined federal and state grant.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 4: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village's deposits and investment policy are in accordance with statutory authority.

#### CASH DEPOSITS

At February 29, 2008, the carrying amount of the Village's deposits was \$102,692 and the bank balance was \$159,058.

Investments consist of Certificates of Deposit with a carrying amount of \$138,265 at February 29, 2008. These are considered deposits for custodial credit risk.

Federal Depository Insurance – Of the above balance in cash and investments, \$267,946 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized. The Village may experience significant fluctuations in deposit balances throughout the year due to varying property tax collections and other activity.

### NOTE 5: PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. The Village bills and collects its own property taxes from July through September. Property tax revenues are recognized when collected.

The Village is permitted by statute to levy taxes subject to State Headlee and Truth-in-Taxation Provisions up to \$12.50 per \$1,000 of taxable valuation for general governmental services other than payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The Village is also permitted by statute to levy taxes up to \$5 per \$1,000 of taxable valuation for street improvements. The 2007 taxable valuation of the Village of Alanson totaled \$19,465,880.

The tax rate for the year ended February 29, 2008, is as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General government	4.4566 per \$1,000
Street improvements	3.0342 per \$1,000

# **NOTES TO FINANCIAL STATEMENTS – CONTINUED**

## **NOTE 6: CAPITAL ASSETS**

Capital asset activity of the Village's primary government for the current year was as follows:

	Balance March 1, 2007	Additions	Deletions	Balance February 29, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 11,874	\$ -	\$ -	\$ 11,874
Construction in progress	-	-	-	-
Subtotal	<u>11,874</u>	<u>-</u>	<u>-</u>	<u>11,874</u>
Capital assets being depreciated:				
Buildings	60,000	-	-	60,000
Equipment	209,271	-	-	209,271
Infrastructure	<u>627,540</u>	<u>672,529</u>	<u>-</u>	<u>1,300,069</u>
Subtotal	<u>896,811</u>	<u>672,529</u>	<u>-</u>	<u>1,569,340</u>
Less accumulated depreciation:				
Buildings	(26,400)	(1,200)	-	(27,600)
Equipment	(118,902)	(9,015)	-	(127,917)
Infrastructure	<u>(534,909)</u>	<u>(36,481)</u>	<u>-</u>	<u>(571,390)</u>
Subtotal	<u>(680,211)</u>	<u>(46,696)</u>	<u>-</u>	<u>(726,907)</u>
Net capital assets being depreciated	<u>216,600</u>	<u>625,833</u>	<u>-</u>	<u>842,433</u>
Governmental activities net capital assets	<u>\$ 228,474</u>	<u>\$ 625,833</u>	<u>\$ -</u>	<u>\$ 854,307</u>

Depreciation expense was charged to the primary government as follows:

## **Governmental Activities**

Unallocated	<u>\$ 46,696</u>
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## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 6: CAPITAL ASSETS – CONTINUED

#### CONSTRUCTION COMMITMENTS

The Village has an uncompleted construction project at year-end. The project includes:

	<u>Project Estimates</u>	<u>Expended to Feb. 29, 2008</u>	<u>Committed</u>
Community Building roof replacement	\$150,000	\$ 3,219	\$146,781

At year-end, the construction in progress was not capitalized.

### NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

The interfund balances within the primary government are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ 4,074
Sewer Fund	4,074	-
	<u>\$ 4,074</u>	<u>\$ 4,074</u>

The interfund balances represent a receipt for Sewer Fund operations that was deposited in the General Fund in error.

### NOTE 8: RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Village belongs to the Michigan Township Participating Plan, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for 100% of its claims.

The Village continues to carry commercial insurance for all other risks of loss, including worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 9: COMMITMENTS

Sewer Fund - The Village is a participant in a joint sewage disposal system administered by the Harbor Springs Area Sewage Disposal Authority and is committed to share in a portion of all costs, including principal and interest on long-term debt. The Village's portion of long-term debt consists of the following bond issue:

1988 refunding bonds were refinanced in 2004 with the amount due in annual installments of \$22,601 through January 1, 2009 plus interest at 3.125% to 3.75%. \$ 23,450

The annual requirements to amortize the balance outstanding including interest payments of \$849 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2009	<u>\$ 23,450</u>
	<u>\$ 23,450</u>

In January, 2002, the Village of Alanson, along with the Harbor Springs Area Sewage Disposal Authority, the City of Harbor Springs, Littlefield Township and Little Traverse Township agreed to construct a new wastewater treatment facility and close the Authority's existing system. Bonds in the amount of \$7,000,000 were issued to pay for the construction.

The annual requirements to amortize the Township's portion of these debts, including interest at 2.50%, as of February 29, 2008 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2009	\$ 37,377
2010	37,254
2011	37,118
2012	37,480
2013	37,305
2014-2018	186,430
2019-2023	185,555
Thereafter	<u>37,775</u>
	<u>\$ 596,294</u>



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 10: RESTRICTED NET ASSETS**

The Sewer Fund's net assets are restricted for maintenance and debt service of the Village's sewer operation.

## REQUIRED SUPPLEMENTAL INFORMATION

**VILLAGE OF ALANSON**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
<b>Beginning budgetary fund balance</b>	\$ 120,080	\$ 120,080	\$ 133,166	\$ 13,086
<b>Resources (inflows):</b>				
Taxes	144,266	144,740	144,741	1
State revenues	72,800	67,845	71,288	3,443
Charges for services	1,000	1,202	1,202	-
Interest and rentals	20,000	47,286	24,678	(22,608)
Other	90	27,979	5,487	(22,492)
	<u>358,236</u>	<u>409,132</u>	<u>380,562</u>	<u>(28,570)</u>
Amounts available for appropriations				
<b>Charges to appropriations (outflows):</b>				
General government:				
Council	9,830	7,300	7,300	-
Other wages	1,800	2,120	2,120	-
Equipment purchases	6,000	732	732	-
Elections	3,000	1,177	1,177	-
Professional services	6,000	3,689	3,689	-
Village promotion	3,010	2,930	2,930	-
Miscellaneous	810	671	671	-
Clerk	12,000	12,240	12,240	-
Rent, utilities and maintenance	50,560	36,508	38,618	2,110
Treasurer	7,885	7,885	7,885	-
Sewer Billing	2,400	-	-	-
Office supplies	5,400	3,181	3,181	-
Payroll taxes	5,000	5,722	5,998	276
Insurance	16,000	14,796	14,796	-
	<u>129,695</u>	<u>98,951</u>	<u>101,337</u>	<u>2,386</u>
Total general government				
Public safety:				
Planning	2,500	-	-	-
Zoning	3,000	2,849	2,849	-
	<u>5,500</u>	<u>2,849</u>	<u>2,849</u>	<u>-</u>
Total public safety				
Public works:				
Roads	108,820	160,473	138,577	(21,896)
Sewer	10	19,106	-	(19,106)
	<u>108,830</u>	<u>179,579</u>	<u>138,577</u>	<u>(41,002)</u>
Total public works				
Recreation and cultural:				
Parks and recreation	5,000	2,013	2,013	-
	<u>249,025</u>	<u>283,392</u>	<u>244,776</u>	<u>(38,616)</u>
Total charges to appropriations				
<b>Ending budgetary fund balance</b>	<u>\$ 109,211</u>	<u>\$ 125,740</u>	<u>\$ 135,786</u>	<u>\$ 10,046</u>

**VILLAGE OF ALANSON**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
<b>Beginning budgetary fund balance</b>	\$ 6,255	\$ 6,255	\$ 7,399	\$ 1,144
<b>Resources (inflows):</b>				
Federal revenues	-	-	488,811	488,811
State revenues	38,300	39,627	132,113	92,486
Interest	15	53	53	-
Other	-	-	1,525	1,525
Amounts available for appropriations	44,570	45,935	629,901	583,966
<b>Charges to appropriations (outflows):</b>				
Public works:				
Construction	17,500	23,888	604,351	580,463
Routine maintenance	500	374	374	-
Administration	14,000	10,010	10,010	-
Other	6,315	6,137	6,137	-
Total charges to appropriations	38,315	40,409	620,872	580,463
<b>Ending budgetary fund balance</b>	<u>\$ 6,255</u>	<u>\$ 5,526</u>	<u>\$ 9,029</u>	<u>\$ 3,503</u>

**VILLAGE OF ALANSON**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended February 29, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Beginning budgetary fund balance</b>	\$ 20,401	\$ 20,401	\$ 15,032	\$ (5,369)
<b>Resources (inflows):</b>				
State revenues	19,760	20,353	20,308	(45)
Interest	40	33	33	-
	<u>40,201</u>	<u>40,787</u>	<u>35,373</u>	<u>(5,414)</u>
Amounts available for appropriations				
<b>Charges to appropriations (outflows):</b>				
Public works:				
Routine maintenance	8,000	6,784	9,748	2,964
Other	11,800	17,213	14,249	(2,964)
	<u>19,800</u>	<u>23,997</u>	<u>23,997</u>	<u>-</u>
Total charges to appropriations				
<b>Ending budgetary fund balance</b>	<u>\$ 20,401</u>	<u>\$ 16,790</u>	<u>\$ 11,376</u>	<u>\$ (5,414)</u>



August 28, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Village President and Council  
Village of Alanson, Michigan

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of the Village of Alanson, as of and for the year ended February 29, 2008, which collectively comprise the Village of Alanson's basic financial statements and have issued our report thereon dated August 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Alanson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Alanson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Alanson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Alanson's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Alanson's financial statements that is more than inconsequential will not be prevented or detected by the Village of Alanson's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting. The Village does not perform bank reconciliations on a regular or timely basis. Reconciliations should be prepared for each cash and investment account every month. In addition, the Village does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles for external financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Alanson's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Alanson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village of Alanson's response to the findings identified in our audit is described as follows. The Village will require monthly reconciliation of cash and investment accounts and will ensure that training is provided if necessary. The Village, however, will not be able to prepare their own financial statements according to generally accepted accounting principles as they do not have the number of employees or the expertise to perform this function.

We did not audit the Village of Alanson's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Village's Board and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Schneider & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan